

IFCI Limited

July 05, 2019

Ratings

S NO	Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
I	Long term Bank Facilities	7,825 (Rupees Seven Thousand and Eight Hundred and Twenty Five crore only)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
II	Long term Instruments	2,655 (Rupees Two Thousand and Six Hundred Fifty Five crore only)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
III	Subordinated Bonds	1,045 (Rupees One Thousand and Forty Five crore only)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed
IV	Long term Instruments – NCD*	575 (Rupees Five Hundred and Seventy Five crore only)	CARE BBB+ (SO); Negative (Triple B Plus [Structured Obligation]; Outlook: Negative)	Revised from CARE A- (SO); Negative (Single A Minus [Structured Obligation]; Outlook: Negative)

*based on credit enhancement in the form of lien of Special Government security (G-sec) in favor of trustee such that the total lien amount is at least 70% of the total liability on the NCD and supplemented by a structured payment mechanism (SPM)
 Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the various bank facilities and instruments of IFCI Limited (IFCI) factor in deterioration in capitalization profile of IFCI following an absence of capital infusion from Gol in FY19, net loss reported during FY19 and moderate liquidity profile. IFCI's current capital adequacy levels are significantly below the regulatory requirement and will continue to be a cause for concern in the near term. Also, IFCI's asset quality and profitability also remains under significant stress following very high share of stage-3 assets of 52.5% as on March 31, 2019. The ratings however, continue to derive strength from majority ownership by the Government of India (GOI) and diversified resource profile.

The rating assigned to the NCD issue of IFCI (S No. IV in above table) principally derives comfort from the credit enhancement provided in the form of lien of Special Government security (G-sec) in favor of trustee such that the total lien amount is expected to be at least 70% of the total liability on the NCD and further supplemented by a structured payment mechanism (SPM).

Outlook: Negative

The outlook on the ratings is 'Negative' on account of continued weak capitalization levels (below the acceptable regulatory threshold of capital adequacy) and weak asset quality profile. IFCI's ability to get adequate equity capital from Gol, liquidate non-core investments in a timely manner and reduce asset quality stress through recoveries will be critical for IFCI's capitalization and liquidity as well as profitability will remain the key rating sensitivities. The outlook may be revised to 'Stable' if IFCI restores its capital adequacy levels through a mix of different actions - capital support from government / liquidation of non-core investments and NPA recoveries.

Detailed description of the key rating drivers

Majority ownership by Government of India (Gol): Gol is majority shareholder in IFCI and holds 56.42% equity shares of IFCI as on March 31, 2019. In March 2018, Gol had infused fresh equity capital of Rs.100 crore in IFCI, which increased Gol equity holding from 55.53% to 56.42% as on March 31, 2018. Gol has also appointed two nominee Directors on the Board of IFCI Ltd. Being a majority owned by Gol, IFCI is expected to receive support from the government in equity capital and resource raising and other regulatory matters.

Diversified resource profile: Total borrowings of the company stood at Rs.16,094 crore as on March 31, 2019 (Rs. 20,138 crore as on March 31, 2018). Of this, bank borrowings formed around 30% and balance being bonds and others. Diversified borrowing profile and majority Gol ownership has helped IFCI to keep its cost of funds under control with weighted average funding cost of close to 9.2% as on March 31, 2019.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Moderate Liquidity profile: As on March 31, 2019, there are no negative cumulative mismatches in ALM buckets upto 2 months. However, there are negative cumulative mismatches in more than 2 months bucket; which will be supported by the disinvestment of non-core assets and recoveries from NPA. and As on May 22, 2019, company had liquidity buffer of Rs.1,220 crore in the form of bank balances, investments in mutual funds, G-secs, bonds and open OD limits which supports its liquidity profile.

Key Rating Weaknesses

Weak asset quality: IFCI's asset quality is weak as reflected in stage 3 assets of around 52.5% as on March 31, 2019. IFCI's provision cover on stage-3 assets was around 61% as on March 31, 2019. A large number of IFCI's NPAs are under NCLT while some others are in the process of restructuring / resolution. The extent of haircut required on these exposures and consequent adequacy of provisioning will be critical for IFCI's capitalization and profitability profile. IFCI's ability to reduce pressure on asset quality profile through reduction in NPA levels will be critical for its credit profile.

Weak capitalization profile: IFCI's capitalization profile deteriorated further in FY19 with CAR and Tier 1 capital at 7.97% and 5.31% as on March 31, 2019 from 10.27% and 6.85% as on September 30, 2018 as against regulatory minimum capital requirement of CAR and Tier 1 at 10% and 7% for Gol owned NBFCs and 15% and 10% for NBFCs. The deterioration in capitalization profile of IFCI is following an absence of capital infusion from Gol in the current financial year so far, net loss during FY19 and continuing adverse impact on net worth on account of implementation of Ind AS from current financial year. Gol has made a budgetary allocation of Rs.200 crore for capital infusion in IFCI for FY20 as against IFCI's capital request of Rs.1,100 crore in FY19. IFCI's capitalization profile is also impacted by its sizeable investments in equity shares and other investments. IFCI's management is focussing on sale of equity investments in order to reduce pressure on IFCI's capitalization. IFCI's ability to get adequate equity capital from Gol, and liquidate non-core investments in a timely manner will be critical for IFCI's profitability and capitalization and will remain a key rating sensitivity.

Weak financial and operational performance in FY19: During FY19, IFCI's gross loan book declined by 18% from Rs.21,170 cr as on March 31, 2018 to Rs.17,549 cr as on March 31, 2019. Loan book growth is expected to remain under pressure till IFCI gets adequate equity capital from Gol / liquidates non-core investments and improves its capitalization and asset quality profile.

On account of decline in credit book, as well as weakness in asset quality profile which impacted interest income and despite profit on sale of investments, IFCI's total income declined by 34% in FY19 to Rs.2,466 crore from Rs.3,740 crore in FY18. IFCI's profit before provisions was Rs.393 crore in FY19 supported by profit on sale of non-core investments. Further, on account of weakness in asset quality, provisions increased to Rs.1,085 crore and led to net loss of Rs.444 crore in FY19.

Concentrated loan portfolio: As on March 31, 2019, top 20 exposures account for a significant proportion (253%) of Net worth and 31% of the total loan assets.

Analytical approach: Standalone, factoring linkages with majority Gol ownership

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE Methodology for Non-Banking Financial Companies](#)

[Financial Sector –Financial Ratios](#)

[Factoring Linkages in Ratings](#)

About the Company

Incorporated on July 01, 1948, through a special Act of Parliament, IFCI is the oldest development Financial Institution of India. The constitution of the company was changed from a statutory corporation to a public limited company in 1993. Subsequently, the name of the company was also changed to its present name with effect from October 1999. IFCI has been categorized as Systemically Important Non-Deposit taking Non-Banking Financial Company (NBFC-ND-SI) by the Reserve Bank of India in FY08. In the early 2000s, IFCI witnessed deterioration in asset quality, resulting in high losses. Thereafter, the Government of India in 2002-03, in consultation with the other stakeholders, worked out a financial rescue package for IFCI which included restructuring of its liabilities. IFCI resumed its lending operations in the year 2008 and is since engaged in providing corporate loans and project-specific loans to corporates. In addition, IFCI also invests in companies through equity, preference shares and debt instruments. In April 2015, IFCI became a government company u/s 2(45) of the Companies Act, 2013 after the government acquired Rs.60 crore of preference share equity in the company from existing shareholders. Gol holds 56.42% equity shares in IFCI as on March 31, 2019.

Brief Financials^ (Rs. crore)	FY18 (A)	FY19 (A)
Total income	3,740	2,466
PAT	468	-444
Interest coverage (times)	1.24	0.61
Total Assets excluding intangibles and DTA	25,185	20,160
Net NPA (%)	29.02	31.77
ROTA (%)	1.67	-1.87

A: Audited, ^: as per IND AS

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	Up to Jul 2022	7825.00	CARE BBB-; Negative
Bonds-Subordinated	1-Aug-11	10.50%	1-Aug-21	191.43	CARE BBB-; Negative
Bonds-Subordinated	1-Aug-11	10.75%	1-Aug-26	468.48	CARE BBB-; Negative
Bonds-Subordinated	25-Aug-11	10.55%	25-Aug-21	200.00	CARE BBB-; Negative
Bonds-Subordinated	31-Oct-11	10.50%	31-Oct-21	74.51	CARE BBB-; Negative
Bonds-Subordinated	31-Oct-11	10.60%	31-Oct-21	8.15	CARE BBB-; Negative
Bonds-Subordinated	31-Oct-11	10.75%	31-Oct-26	102.40	CARE BBB-; Negative
Bonds - Infra	31-Mar-12	8.72%	31-Mar-27	24.16	CARE BBB-; Negative
Bonds - Infra	31-Mar-12	8.50%	31-Mar-24	85.23	CARE BBB-; Negative
Bonds - Infra	15-Feb-12	9.16%	15-Feb-27	42.56	CARE BBB-; Negative
Bonds - Infra	15-Feb-12	9.09%	15-Feb-22	237.46	CARE BBB-; Negative
Bonds - Infra	12-Dec-11	8.75%	12-Dec-26	11.03	CARE BBB-; Negative
Bonds - Infra	12-Dec-11	8.50%	12-Dec-21	65.76	CARE BBB-; Negative
Bonds	26-Jun-12	10.25%	26-Jun-22	124.07	CARE BBB-; Negative
Bonds	26-Jun-12	10.15%	26-Jun-22	2.80	CARE BBB-; Negative
Bonds	28-Sep-12	10.05%	28-Sep-22	8.20	CARE BBB-; Negative
Bonds	8-Oct-12	10.12%	8-Oct-27	25.00	CARE BBB-; Negative
Bonds	8-Oct-12	10.10%	8-Oct-27	5.15	CARE BBB-; Negative
Bonds	5-Nov-12	9.90%	5-Nov-22	106.88	CARE BBB-; Negative
Bonds	5-Nov-12	9.90%	5-Nov-27	106.88	CARE BBB-; Negative
Bonds	5-Nov-12	9.90%	5-Nov-32	106.88	CARE BBB-; Negative
Bonds	5-Nov-12	9.90%	5-Nov-37	106.88	CARE BBB-; Negative
Bonds	11-Jan-13	9.90%	11-Jan-21	151.20	CARE BBB-; Negative
Bonds	26-Apr-13	9.75%	26-Apr-28	350.00	CARE BBB-; Negative
Bonds-Unsecured Redeemable	13-Jul-10	9.75%	13-Jul-30	250.00	CARE BBB-; Negative
Bonds	31-May-16	8.55%	03-Nov-21	575.00	CARE BBB+ (SO); Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	325.00	CARE BBB-; Negative	-	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
2.	Fund-based - LT-Term Loan	LT	400.00	CARE BBB-; Negative	-	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
3.	Term Loan-Long Term	LT	2100.00	CARE BBB-; Negative	-	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
4.	Bonds-Unsecured Redeemable	LT	250.00	CARE BBB-; Negative	-	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)

						(24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)		
5.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (12-Sep-17) 2)CARE A1 (12-Jul-17)	1)CARE A1+ (30-Mar-17) 2)CARE A1+ (14-Jul-16)
6.	Fund-based - LT-Term Loan	LT	5000.00	CARE BBB-; Negative	-	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
7.	Bonds-Subordinated	LT	1044.97	CARE BBB-; Negative	-	1)CARE BBB-; Negative (25-Feb-19) 2)CARE BBB; Negative (24-Sep-18) 3)CARE BBB; Negative (22-Jun-18) 4)CARE BBB; Negative (01-Jun-18)	1)CARE BBB+; Negative (12-Jul-17)	1)CARE A-; Negative (30-Mar-17) 2)CARE A (14-Jul-16)
8.	Bonds	LT	705.03	CARE BBB-; Negative	-	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
9.	Debentures-Non Convertible Debentures	LT	500.00	CARE BBB-; Negative	-	1)CARE BBB; Negative (25-Feb-19)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17)

						2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)		2)CARE A+ (14-Jul-16)
10.	Debentures-Non Convertible Debentures	LT	1200.00	CARE BBB-; Negative	-	1)CARE BBB; Negative (25-Feb-19) 2)CARE BBB+; Negative (24-Sep-18) 3)CARE BBB+; Negative (22-Jun-18) 4)CARE BBB+; Negative (01-Jun-18)	1)CARE A-; Negative (12-Jul-17)	1)CARE A; Negative (30-Mar-17) 2)CARE A+ (14-Jul-16)
11.	Bonds	LT	575.00	CARE BBB+ (SO); Negative	-	1)CARE A- (SO); Negative (25-Feb-19) 2)CARE A (SO); Negative (24-Sep-18) 3)CARE A (SO); Negative (22-Jun-18) 4)CARE A (SO); Negative (01-Jun-18)	1)CARE A+ (SO); Negative (12-Jul-17)	1)CARE AA- (SO); Negative (30-Mar-17) 2)CARE AA (SO) (14-Jul-16) 3)CARE AA (SO) (06-Jun-16)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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